Public debt and its administration

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Public debt is the total amount of government debt, issued in the national currency or in a currency other than the national currency.

Public debt includes the total of state loans and accrued and unpaid interests up to the moment of their calculation.

The taking of debts by the state is dictated by the needs of securing revenue sources to cover the budget deficit.

- Economists are divided into two main groups defining the public debt, on the one hand, as a brake on the economy due to the negative impact on inflation and interest rates, and,

- incentive on the other hand, because the public debt avoids tax increases, encouraging savings and economic efficiency.

Budget Deficit

- If public revenues and expenditures are equal, the budget is in balance.
- If the difference between revenues and public expenditures in a year is negative, expenditures are greater than revenues, then we say that the budget is in deficit.
- The budget surplus, in a year, is the difference between income and expenditure, when income is greater than expenditure.

Causes of a budget deficit

There are many reasons for a deficit result:

- Change in fiscal policy
- Taxpayers are not correct with the law
- Tax and tax collection management problems that may come from the incompetence of the tax administration or even from the corruption of the tax administration.
- Pursuing intensive social policies
- Large public investments, subsidies in different industries or sectors, etc.

Financing the budget deficit

- Borrowing or public debt, which is considered as a way to shift the problem in time
- The use of pre-accumulated reserves from budget surpluses realized during previous years
- Increase in taxes, assuming that they do not affect the inhibition of economic activity
- Monetary emission
- Monetization (printing local currency) causes hyperinflation
- Reduction of public expenses
- Sale of state assets
- The sale of assets can create a liquidity surplus in the budget

Public Debt

- State debt is the amount of loans received in the banking and financial market and from third parties such as natural persons, legal entities or individuals, subject to repayment, with or without interest, for the financing of certain investment projects, temporary lack of liquidity and of the fiscal deficit.

- There are many developed countries that experience a high budget deficit.
- High budget deficits are considered the main cause of macroeconomic problems.

The importance of public debt

Public debt is used for:

- ✓Coping with investments
- ✓Implementation of subsidies
- ✓‘Coping with temporary liquidity shortages
- ✓Redistribution of income
- ✓Through public debt, the government can finance investments by reducing taxes and duties

- ✓Impact on monetary policy
- ✓Increasing public debt increases welfare (wealth), income, and consumption demand
- ✓The aim of every country is to develop and achieve the desired economic stability

The structure of public debt in Albania

- Debt has two main divisions; by currency and duration.

- According to the currency, it is divided into:

  internal and external debt and,

- according to the duration, it is divided into:

  long-term and short-term debt

Debt risk management

- Risks encountered in public debt management:

- Market risk refers to risks called systemic
- Refinancing risk
- Liquidity risk
- Operational risk

The main financial titles of the public debt

- For short-term borrowing, the government issues treasury bills. Treasury bonds are short-term obligations of the government, issued by the latter with a maturity of up to 12 months.

- Bonds are the main type of long-term debt. Bonds represent the transaction between the lender who gives the amount requested by the borrower and in return receives the loaned amount plus interest.

- Bonds can have a fixed interest rate and an interest rate indexable to inflation.

- When the debt is obtained through the issuance of an inflation indexable bond, the indexed (adjusted) principal will be repaid with inflation plus interest calculated on the indexed principal.

- Inflation-indexed bonds protect the value of loaned funds.

The Central Bank as a lender to the government

Bankat Qëndrore realizojnë zbatimin e politikës monetare duke përdorur instrumentet indirekte që përfshijnë transaksionet në letra me vlerë të qeverisë.

Praktika njeh si subjekte huadhënëse për qeverinë edhe Bankat Qëndrore.

Sa herë që Bankat Qëndrore përfshihen në huadhënie kjo rezulton në rritje të parave në qarkullim.

- Due to the active participation of the government in the financial markets, they and the Central Banks must promote the sustainable development of the secondary markets so that they can function effectively under market conditions.
- An efficient secondary market brings together diverse investors by enabling low-cost sources of financing.
- Borrowing plans are published in advance and consistently when new securities are issued, the issuer must create equal opportunities for investors.